

## Message Text

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56

ACTION IO-13

INFO OCT-01 EUR-12 EA-07 NEA-10 ISO-00 EB-07 ABF-01 AID-05

SAJ-01 TRSE-00 CIAE-00 INR-07 NSAE-00 L-03 OMB-01

SS-15 SP-02 NSC-05 FRB-03 AGR-05 OES-06 INT-05 AF-08

ARA-06 /123 W

----- 089076

R 311029Z JUL 76

FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC 7061

INFO AMEMBASSY ALGIERS

AMEMBASSY BELGRADE

AMEMBASSY BERLIN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY BUDAPEST

AMEMBASSY COPENHAGEN

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY OSLO

AMEMBASSY SOFIA

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

AMEMBASSY THE HAGUE

AMEMBASSY WARSAW

AMEMBASSY WELLINGTON

USMISSION GENEVA

USLO PEKING

C O N F I D E N T I A L MOSCOW 12113

E.O. 11652 GDS

TAGS: UNDP, EAID, UR, US, EFIN

SUBJECT: UNDP-US PROPOSAL FOR PURCHASE OF NON-CONVERTIBLE  
CURRENCY

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REF: (A) STATE 184958, (B) STATE 177984 (C) MOSCOW 11617,

1. SUMMARY. ON JULY 29 CHARGE EXPLAINED US PROPOSAL FOR PURCHASE OF PORTIONS OF UNDP HOLDINGS OF NON-CONVERTIBLE CURRENCIES TO USSR FOREIGN TRADE BANK. PRELIMINARY REACTION CENTERED ON LOSS TO USSR OF HARD CURRENCY EARNINGS.

IN AN INFORMAL CONVERSATION ON JULY 28, A MINISTRY OF FOREIGN AFFAIRS OFFICIAL RESPONSIBLE FOR UNDP AFFAIRS REMARKED THAT THE USSR MIGHT CONCEIVABLY MAKE COMPROMISE MOVE THROUGH INCREASE IN CONVERTIBILITY ON UNDP RUBLE HOLDINGS. IF SOVIETS DO EVENTUALLY MAKE CONCESSION ALONG THESE LINES, IT WILL PROBABLY COME ONLY IN RESPONSE TO LDC PRESSURES. END SUMMARY.

2. ON JULY 29 CHARGE KEPT SCHEDULED APPOINTMENT WITH A.R. MAKEYEV, ACTING CHAIRMAN OF THE USSR BANK FOR FOREIGN TRADE. ON ARRIVING AT BANK IT DEVELOPED THAT MAKEYEV HAD BEEN CALLED AWAY ON BUSINESS AND CHARGE MET WITH F.P. YEVEYEVA, DEPUTY CHIEF MANAGER, IN HIS PLACE. CHARGE OUTLINED US PROPOSAL IN DETAIL, PER REFTELS, STRESSING THAT IT WOULD BE A WORLDWIDE APPROACH TOWARD UTILIZATION OF PORTIONS OF UNDP HOLDINGS OF NON-CONVERTIBLE CURRENCY, WOULD PRESERVE IDENTIFICATION OF CONTRIBUTING COUNTRIES WITH THEIR CONTRIBUTIONS, AND INVOLVED NO SPECIAL ADVANTAGE TO US.

3. YEVEYEVA OBSERVED THAT SHE FOUND OUR PROPOSAL PERFECTLY CLEAR AND UNAMBIGUOUS, AND SAID THAT SHE WOULD REPORT IN DETAIL TO MAKEYEV AND SEE THAT THE PROPOSAL WAS PROPERLY STUDIED BY OTHER RELEVANT SOVIET AGENCIES BEFORE A FINAL POSITION WAS TAKEN. SHE HAD ONLY TWO PERSONAL OBSERVATIONS: FIRST, THAT THE PROPOSAL REALLY COSTS THE US NOTHING SINCE US WOULD BE ACQUIRING NON-CONVERTIBLE CURRENCY FOR ITS OWN USE WHICH IT WOULD OTHERWISE BUY THROUGH NORMAL BANKING CHANNELS. SECOND, THE PROPOSAL WOULD AFFECT SOVIET CONVERTIBLE CURRENCY EARNINGS SINCE THE USSR WOULD NOT RECEIVE DOLLARS FOR US RUBLE EXPENSES IN USSR AS IT DOES NOW. SHE ADDED THAT SHE PRESUMED THAT CONVERSION OF RUBLES TO DOLLARS WOULD MEAN THAT PROCUREMENT BY UNDP WOULD SHIFT FROM USSR TO US. CHARGE REPLIED THAT THIS IS NOT A VALID ASSUMPTION, BECAUSE THE DOLLARS WOULD BE FREELY CONVERTIBLE FOR PROCUREMENT WORLDWIDE. PROBLEM, HE EXPLAINED, IS THAT UNDP HAS EXCESS OF SOME NON-CONVERTIBLE CURRENCIES WHICH CANNOT BE USED EFFECTIVELY TO IMPLEMENT UNDP PROGRAMS; US PROPOSAL WOULD PERMIT UNDP TO MAKE FULL USE OF ALL CONTRIBUTION IN MOST RATIONAL FASHION.

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4. AT SOCIAL FUNCTION ON EVENING JULY 28 ACTING ECONOMIC COUNSELOR DISCUSSED US PROPOSAL AT LENGTH WITH V.S. POZHARSKIY, DEPUTY CHIEF OF MFA INTERNATIONAL ECONOMIC ORGANIZATIONS DEPARTMENT. (INITIAL APPROACH ON US PROPOSAL WAS MADE TO POZHARSKIY ON JULY 21, REFTEL C.) EMBOFF REITERATED POINTS MADE EARLIER AND INCLUDED IN ADDITION MOST OF PINTS MADE N REFTEL A. POZHARSKIY APPEARED TO BE INTERESTED AND EVEN SYMPATHETIC BUT REFUSED TO

BUDGE FROM EARLIER POSTION. WHEN ASKED ABOUT REPORTED INFORMAL "VOTE" IN GENEVA ON US PROPOSAL WHICH HE HAD MENTIONED DURING JULY 21 MEETING, HE SAID THAT THERE HAD BEEN NO VOTE AS SUCH BUT THAT COUNTIRES, INCLUDING THIRD-WORLD COUNTIRES, HAD EXPRESSED THEIR OPINION AND "SIDED WITH THE USSR AND EAST EUROPEANS."

5. AFTER HAVING GONE THROUGH US ARGUMENTS AND HAVING HEARD POZHARSKIY'S STANDARD REBUTTAL, EMBOFF COMMENTED THAT HE UNDERSTOOD THAT INITIAL SOVIET REACTION IS NEGATIVE, BUT ASKED WHETHER, IN POZHARSKIY'S PERSONAL OPINION, THERE IS SOME CHANCE THAT USSR MIGHT EVENTUALLY MODIFY VIEW. AFTER SOME HESITATION, POZHARSKIY CAUTIOUSLY SUGGESTED THAT USSR MIGHT CONCEIVABLY MAKE SOME CONCESSION BUT THAT IT WOULD NOT BE ALONG LINES OF US PURCHASES OF UNDP RUBLES. IT WOULD BE PURELY ON TECHNICAL AID SIDE, I.E. ALLOWING CONVERTIBILITY OF LARGER PORTION OF SOVIET CONTRIBUTION TO UNDP.

6. COMMENT: WE SHALL CONTINUE OUR EFFORTS TO EXPLAIN US PROPOSAL TO SOVIET OFFICIALS. WE SUSPECT -- NOT MERELY FROM POZHARSKIY'S PERSONAL COMMENT, BUT ALSO FROM OUR OWN READING OF SOVIET ATTITUDES -- THAT IF IT BECOME APPARENT TO SOVIET DECISION MAKERS THAT THEIR RELATIONS WITH LDC'S ARE SUFFERING BECAUSE OF NON-CONVERTIBILITY OF LARGE PORTION OF UNDP RUBLE HOLDINGS, THEIR MOST PROBABLE MOVE WOULD BE TO INCREASE THE CONVERTIBILITY OF THIER CONTRIBUTION RATHER THAN AGREEING TO US PLAN. EVEN IF THIS SHOULD BE THE OUTCOME, IT WOULD SEEM THAT THIS COULD SUBSTANTIALLY ALLEVIATE THE UNDP PROBLEM AND THUS ACHIEVE US OBJECTIVE. WE WOULD STRESS, HOWEVER, THAT ANY SOVIET CONCESSION IN THIS AREA IS PROBABLY CONTINGENT ON CONSIDERABLE PRESSURE FROM LDC'S.  
MATLOCK

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